Regulation 39-30-105.5. Enterprise zone research and experimental expenditures credit.

- (a) Credit allowed.
- (1) For income tax years beginning on or after January 1, 1989, taxpayers may claim an income tax credit with respect to expenditures made for research and experimental activities conducted in a Colorado enterprise zone. The credit is three percent of the amount of such expenditures allowed to be expensed (or which could have been expensed, had the taxpayer so elected) under the provisions of section 174 of the internal revenue code for the current tax year over the average of such amounts for the two preceding tax years.
- (2) Research and experimental expenditures are expenditures incurred in the taxpayer's trade or business, which represent research and development costs in the experimental or laboratory sense. The term includes generally all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property. Qualifying expenditures include not only costs paid or incurred by the taxpayer for research or experimentation undertaken by him but also expenditures paid or incurred for experimentation carried out in his behalf by another person or organization. Expenditures by the taxpayer for the acquisition or improvement of land or property that is subject to an allowance for depreciation under section 167 or depletion under section 611 of the Internal Revenue Code are not qualifying expenditures for the purposes of determining this credit. The following expenditures do not qualify:
- (i) expenditures for ordinary testing or inspection of material for quality control, management, advertising or consumer studies, efficiency surveys, or promotions;
 - (ii) cost of acquiring another person's patent, model, process, etc.;
 - (iii) costs incurred in connection with literary, historical and similar projects;
- (iv) expenditures to ascertain the existence, location, extent or quality of mineral deposits, including oil and gas; and
 - (v) amounts paid from funds furnished by a governmental agency.
- (b) Limitation on credit; carryover.
- (1) The amount of enterprise zone research and experimental credit allowed with respect to expenditures made during a given year is allowed over a four year period. One-fourth of the credit is allowed for the year during which the expenditure was made and one-fourth for each of the next three years. To the extent the credit for any year exceeds the tax liability for such year after other credits have been claimed, the excess may be carried forward and claimed until it is used up.
- (2) Example of provisions of paragraph (b).

Example: The Spacerace Corporation had qualifying enterprise zone research and experimental activities expenditures during 1989 of \$618,000. The average of such expenditures for the two preceding tax years was \$370,000. The allowable credit is 3% of \$248,000 or \$7,440. One-fourth of this amount or \$1,860 may be claimed in each of the tax years 1989, 1990, 1991 and 1992. If the 1989 tax were \$1,500, the \$360 excess could be carried to 1990 and added to the allowable credit for that year.